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TRADE ASSOCIATIONS AND THEIR ENVIRONMENT
FROM AN EFFICIENCY PERSPECTIVE

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February 9, 1982

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ABSTRACT

Literature on trade associations has been sparse. This paper attempts to add to the trade association literature by looking at U.S. electronics industry trade associations. A trade association is perceived as existing in an environmental niche and interfacing with actors in that niche, such as members, other trade associations and government. The nature of the interaction between associations and the actors in their environment is explored through a transaction cost framework. We argue that the market and bureaucracy forms of organizational control fail and a clan will be more efficient when trade associations attempt to get legislation passed. The concept of the clan has been operationalized along two dimensions: (1) gaining a common position; and (2) a willingness to take action. When both of these dimensions are operating, trade associations can work as a clan in their transactions with members in their environmental boundary.



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INTRODUCTION

Organization theory over recent years has begun to study the relationship between an organization and its environment. Typically, organizations are seen as adapting to the demands of the environment. This approach explores how organizations reduce or adapt to environmental uncertainty (Lawrence and Lorsch 1967; Thompson, 1967; Perrow, 1970; Duncan, 1972; and Leblebici and Salancik, 1981), acquiring scarce resources (Yuchtman and Seashore, 1967; Pfeffer and Salancik, 1978), increasing efficiency through lowered transaction costs (Williamson, 1975; Ouchi, 1980; Barney and Ouchi, 1981). Alternatively some studies emphasize that the environment determines the action of organizations through selection mechanisms (Hannan and Freeman, 1977; Aldrich, 1979; Hannan and Freeman, 1981).

Of importance here is that an organization is not perceived as existing in a vacuum, but interfaces with actors in its environment. This paper is an attempt to explore the environment of trade associations in the electronics industry in the United States. It deals with how associations adapt to their environment, while ignoring how the environment selects them (due, in part, to limitations in the data). The decision for this paper is the result of working on a large research project which is currently studying firms (and the financial structure)¹ in the electronics industry in the U.S. and Japan. Ultimately, we plan to progress in a similar vein with trade associations, including Japanese associations in our study.² For now, we are trying to know about electronic industry trade associations in the U.S. before making any cross cultural comparisons. We do believe our contribution is

important since there is remarkably little literature about industry associations. There^{is} a study of legal practices and trade associations (Lamb and Shields, 1971) and another on their role in the democratic process (Bradley, 1965), but nothing comprehensive about trade associations and their environment.

We begin by defining a trade association as a nonprofit organization comprised of a group of firms - usually competitors - in an industry. Fundamentally trade associations provide their members with information about the industry and try to improve the industry's position in the economy through governmental activities, industrial and market research, institutional advertising, etc.

By providing standard definitions and operating characteristics, the association facilitates coordination of competitive activity among firms. The sponsoring of research and product definition activities tends to reduce interorganizational variations. According to Lamb and Shields (1971), "An association's principal function is to provide its members with tools, usually in the form of information, that will enable them to operate more efficiently and effectively than they otherwise might." (p.3). Others think trade associations are "special interest groups" (Olson, 1977) who use the "pressure politics" of small groups to effectively represent business interests (Shattschneider, 1960;1958).

Thus we find two contrasting views as to how trade associations adapt to their environment. One emphasizes the efficiency of trade associations; the other emphasizes how political action gives them more power.

The emphasis in this paper casts political action in another light. We ask what role trade associations play politically to bring about

greater efficiency for the industry. Our concern is not one of power, rather it is one of efficiency. The organizational theoretical framework taken as our reference point is that of a transaction cost analysis (mentioned above). A description of transaction costs will follow the expansion of the idea of trade associations and their environment. The remainder of this paper will center on the transactions of trade associations with members in their environment. The type of transactions for our purposes are legislative and regulatory ones. We wanted to find out whether or not trade associations have an impact in getting legislation passed. We did not explore transactions that are a result of the dissemination of information, or what Olson would refer to as a "noncollective good" (p. 133). Rather, we agree with Olson that noncollective goods are secondary benefits that members receive simply from belonging to the association. It is a "selective incentive" which helps induce members to join. The primary benefits, however, stem from the "collective goods" (p. 133). The benefits from "collective goods" are derived through lobbying (p. 145). We will center our attention on the collective good and lobbying by trade associations from a transaction cost perspective. This suggests that lobbying for key legislation germane to the industry by trade associations as a collective group would reduce the transaction costs of firms having to lobby separately. We turn now to a description of trade associations, their environmental niche and the possible transactions they might incur with actors in their niche.

THE ENVIRONMENTAL NICHE OF TRADE ASSOCIATIONS AND THEIR TRANSACTIONS

What is the nature of an organizational environment? One way to answer this question is to envision the organization as a unit that interfaces with actors because no organization operates as a "closed system." Typically, firms have relations with customers, suppliers, banks and government (local, state and federal levels). It is these relations that comprise the organizational niche (Ulrich, 1982). Bearing this in mind, the parallel is to envision a trade association as a member of an organizational niche. Some of the actors in this niche whom trade associations interface with are diagrammed in Figure 1.

We note that trade associations will interface with the government, their members and other associations. The way they interface with them may be thought of as exchanges and the cost of these exchanges determine how efficiently they get performed.

According to Ouchi (1980) "A transaction cost is any activity which is engaged in to satisfy each party to an exchange that the value given and received is in accord with his or her expectations. Transaction costs arise principally when it is difficult to determine the value of goods or services" (p. 130). From this perspective, developed by Williamson (1975) and extended by Ouchi (1980), the efficiency of transactions depend upon their characteristics and their governance mechanisms. These will be briefly explained because they are germane to our study of electronics industry trade associations.

Transaction characteristics and governance mechanisms. There are two ways for organizations to efficiently perform transactions. The first is internally which is relevant to the efficient form of an organization; the second is externally which applies to the efficient boundaries of an organization. The diagram in Figure 1 asks what

boundary is efficient for trade associations with the actors in their environment. This paper is not concerned, at this time, with the internal structure of trade associations or its efficient form, although this is an important area that warrants future study.

Whether the focus is on an organizational boundary or its form, the criterion is the same. It is the efficiency with which a set of transactions is governed. The overall objective is twofold: (1) it allows the parties in an exchange to obtain sufficient information to judge the fairness with which they are being dealt in the relationship and (2) to accomplish this task at a minimum cost (Barney and Ouchi, 1981). Costs will be at a minimum when the parties in the exchange perceive their relationships as equitable, or in accordance with their expectations. Exchanges between parties may take several forms:

- (a) An employment contract, which exchanges labor for pay between an employer and employee
- (b) An exchange of a good or service between organizations
- (c) An exchange of a good between departments within an organization. ³

Transactions contain several important characteristics (to be discussed momentarily). But the salient feature in allowing parties to maintain a perception of equity in the distribution of rewards among the parties to an exchange are the social mechanisms of the governance of the transactions. The characteristics of transactions and the way in which they are governed are discussed respectively.

The following key dimensions are used to characterize a transaction.*

- (1) performance accounting ambiguity. This occurs when the degree of ambiguity or uncertainty concerning the transaction

*These dimensions are adopted from Barney and Ouchi, 1981, and Williamson, 1981.

is high; there is an inability to measure or accurately value the performance of the parties in an exchange.

- (2) goal congruence. This occurs when all involved parties share a set of values that collective goals are greater than individual ones. This shared set of values results in a low level of opportunistic and hedonistic behavior and a low degree of goal conflict.
- (3) asset specificity or frequency. This refers to how often a transaction is executed. Transactions are governed by certain mechanisms (discussed below), some which are best governed by external contractual mechanisms, others by internal control mechanisms. Since internal control mechanisms are costly to maintain, they should not be employed unless the assets are not transferable to other uses and users.

The key social mechanisms used to govern a transaction are markets, bureaucracies and clans. In a market, transactions consists of contractual relations. Market transactions, typically, are like the economic model of pure competition which assumes that supply and demand will regulate the basic exchange, and the market, by and large, will govern the transaction. It is the price mechanism of a competitive market which acts to reassure the individual involved in the transaction that the situation is equitable and the assets are transferable.

Does the market ever fail? The market failures framework suggests this is so. According to Williamson (1975), when individual characteristics such as bounded rationality and opportunism combine with transaction characteristics of complexity, uncertainty and small numbers

bargaining, markets fail to efficiently govern economic exchanges. In a pure market exchange, the competitive forces of the marketplace holds opportunism in check. However, when competition does not exist and small numbers bargaining occurs, individuals may act opportunistically by distorting information or misrepresenting their intentions.

Due to market failure, hierarchies (or bureaucracies) replace the market. A hierarchy through formalized rules and regulations has two principal advantages over the market relation : it acts as a mechanism to foster common goals and objectives between transacting parties; and facilitates close monitoring of each other's behavior, which discourages opportunism. The bureaucratic structure contains a built in acceptance-legitimation of authority-as its norm. In this organizational form there exists a high degree of uncertainty and complexity coupled with a low degree or medium degree of goal congruence.⁴ This type of organization can be efficiently governed through the legitimate authority of hierarchical control (surveillance, evaluation and detection.) In this type of organizational system, each superior must have a set of standards to which he can compare behavior or output in order to provide control (Ouchi, 1980). When tasks become highly unique or extremely ambiguous, they cannot be evaluated by a set standard. Bureaucratic mechanisms of organizational control become inefficient under these conditions and organizational failure results.

How can organizational failure be resolved in highly ambiguous situations? Ouchi (1980) addressed this issue in his expansion of Williamson's (1975) markets and hierarchies framework. Ouchi suggests that organizations can operate efficiently in highly ambiguous settings if there is a high level of goal congruence. Organizations are then governed through clan mechanisms. In a clan there is a common set of

values and beliefs that the members accept as normative. A clan implicitly regulates social relations through social integration, or what Durkheim (1933) referred to as organic solidarity. Whereas contractual relations take place in markets through prices and in bureaucracies through rules, a clan cannot withstand such formalities. Rather performance evaluation occurs through the informal process of subtleties, dialogue and signals. In order for members of a clan to perceive social relations to be equitable, they must trust one another and it is this sense of trust through shared values that results in a high level of goal congruence (or a low level of opportunism). An example of a clan in a modern corporation would be the employees of a Japanese Company (Clark, 1979) where each member feels he or she is part of a family. Some American ^{firms} exhibit many features of the clan found in Japanese Companies (see Theory Z by Ouchi, 1981, for an example).

In sum, the ideas set forth in transaction costs has far reaching applications within firms and between them. We will now apply them to trade associations, in particular associations in the electronics industry.

Electronic Industry Trade Associations, Transaction Characteristics and Governance Mechanisms. Trade associations in the electronics industry are especially interesting since this industry is a high tech one (mainly in the semiconductor and computer areas).⁵ It is highly volatile and subjected to changes in Technology at a rapid rate (see Business Week, Dec. 14, 1981 for comparisons between the U.S. and Japan). This suggests that two of the transactions characteristics are high. Ambiguity and uncertainty are prevalent and the frequency of transactions are asset specific, that is many times they are non transferable to other uses and users.

How can electronics industry trade associations be efficient given

the high degree of performance accounting ambiguity? Clearly, the market governance mechanism will fail. The other two governance mechanisms - bureaucracy and clan - are left. As suggested above, a clan operates most efficiently when goal congruence is high and performance accounting ambiguity is at its highest. A bureaucracy is efficient when performance accounting ambiguity is high and goal congruence medium. As long as there is a set of standards that clearly legitimate tasks, efficiency can be maintained without a high level of goal congruence (Barney and Ouchi, 1981). A bureaucratic organizational system operates according to a system of hierarchical surveillance, evaluation and direction. In order for hierarchical control to be maintained each superior must have a set of standards to which he can compare behavior or output (Ouchi, 1980:134). The standards indicate the value of behavior or an output and are perceived as equitable when they contain a reasonable amount of performance information. For tasks that are highly ambiguous and asset specific to such an extent that they are so unique, standards as a form of control break down and hierarchical control will fail. The cost of such transactions will be at a minimum under the clan mechanism of control, since standards become inequitable. Trust between people must exist in order for the situation to be perceived as equitable. As suggested previously, this will occur when there is a shared sense of values indicating that goal congruence is high and opportunism is low.

Given the nature of the state of the art of the electronics industry, with frequent changes in innovation, we argue that the most efficient organizational form for trade associations with actors in their environmental niche is the clan assisted market for relations between associations and their members (external governance) or the clan for relations within associations (internal governance). The focus

is on the former for our purposes. A clan assisted market requires a high level of cooperation between trade associations and government, their members and other associations.

Two ways to explore this type of relationship is: (1) the way the government enforces existing rules and regulations that would apply to trade associations and (2) the way trade associations work with their members, other associations and government in trying to get new legislation passed or existing legislation changed.

Legislation comprises the wider institutional environment. To the extent that certain rules become highly institutionalized, the more bureaucratic they become and the greater the resistance to change (Zucker and Tolbert, 1982).⁶ Thus, the impact trade associations can have on the legislative process might be a function of the degree of institutionalization. Also, the government might be more inclined to use bureaucratic governance mechanisms of control to enforce legislation that is more institutionalized, even if the laws that are being enforced are so highly ambiguous that bureaucratic mechanisms cease to work.

Oftentimes trade associations have been governed by bureaucratic mechanisms from the government which have been inefficient since the transaction costs of government regulation have been very high. We argue that more cooperation in relations between trade associations and government would bring about fewer transaction costs and greater overall efficiencies. The rest of this paper is divided into two parts. The first is the impact by the government on trade associations. The second is the way trade associations structure themselves to deal with the impact of government upon them and to have some impact on changing existing legislation or getting new legislation passed. Trade associations are a link between government and members, as diagrammed in Figure 2. The government has an impact on the associations

who in turn have an impact on their members. Alternatively the members will have an impact on the association and the association will then effect the government.

It is possible to view Figure 2 as a distance diagram. The greater the distance between the government, trade associations and members, the looser the boundaries. Conversely, the closer the distance, the tighter the boundaries. Alternatively a closer distance means closer cooperation and harmony between members of an organizational environment. This is what is meant by a clan assisted market.

Government and Trade Associations. Trade associations have been subjected to rules and regulations by government in much the same way as industry has. In the U.S. the most institutionalized form of regulation is competition, which means little or no cooperation between firms. The view here is that the market mechanism will regulate competitive practices. Antitrust legislation is a bureaucratic form of organizational control by the government attempting to enforce such competitive relations. Critics (e.g., Bork, 1978 ; and Williamson, 1969) claim that antitrust legislation has not been interpreted from an efficiency perspective because if it had the conclusion would be that monopolies and oligopolies can, in many instances, lead to greater efficiencies benefitting the consumer in the long run. Furthermore, antitrust laws are so highly ambiguous and subject to competing interpretations that set standards needed to enforce such laws under bureaucratic control have not been established (see especially Bork, 1978 for a listing of these inconsistencies).

Prior to the Sherman Act of 1890⁷, trade associations were given authority to regulate production, set prices and allocate markets among their members. After the passage of the Sherman Act, many associations were prosecuted for violating the Act (Lamb and Shields, 1971:5). The position of associations was strengthened during periods of economic crises

Although industry and government cooperation surfaced during these times, the norm is one of social distance.⁸ Antitrust legislation has been strictly enforced during other times.

In contrast, Japan's Antimonopoly Law based on U.S. Antitrust law was superimposed on the Japanese culture by the U.S. at the end of World War II. But Japanese society takes the group as the basic unit and the individual in Japan exists as an organic part of a group. The basic principal in the formation of such groups is harmony (Naohiro, 1981:89). There is less animosity toward big business in Japan. Because of its view on harmony, there is closer cooperation between government, trade associations and firms.

Cross cultural comparisons between trade associations in both countries should reveal some interesting differences. We propose to study this in depth in the future for the electronics industry. Given the cultural conditioning stemming from antitrust legislation in the U.S., the distance between the government and associations is quite large; it is much smaller in Japan.

What has taken place in the U.S. is an enforced competitive market. Since the price mechanism fails to regulate, the government steps in and does this through bureaucratic means generating a bureaucratic assisted market, one that attempts to regulate competition. In asset specific situations when either tasks, goods or services do not have transfer prices that are uniform or clearly definable standards both the market and one assisted by bureaucratic means will fail. In situations such as these a clan assisted market will work best.

What are the conditions when the social mechanisms of a clan transpires in bringing about more efficiency between trade associations and their environmental boundaries? We attempted to answer this question by interviewing trade association personnel in the electronics industry and some government representatives associated with the trade association personnel. We now present what emerged out of the interviews.

Trade Associations and Legislation. How are trade associations attempting to structure themselves internally in order to achieve harmony on legislative matters and governmental affairs? To answer this question we went directly to the trade associations and interviewed key individuals. The interviews were conducted over a period of several months. Presidents, vice presidents and government affairs analysts from 12 associations in the electronics were personally interviewed. ⁹

Only two of the associations are generalists. Both are national organizations (theirmembership is nationwide) with membership open to all firms in the electronics industry; one is headquartered in the east coast, the other on the west coast. The president of both of these associations was interviewed. In addition an interview with a vice president of one of the divisions of the east coast association took place several months prior to the interview with the president. Both generalist associations are quite large, with a membership of , and , respectively.

The other associations are specialists whose members are involved in computer equipment, semiconductors, communications, telecommunications and related products. Many firms belong to multiple associations, depending on the nature of their business. For example if a firm manufactures data processing equipment and semiconductors, it would be to the firm's advantage to join an association specializing in product information and issues about semiconductors and another one who specializes in data processing information and issues. because the firm could then be kept abreast of the state of the art in each area of the electronics industry.

Some of the specialist associations are quite small. Three of them were formed as ad hoc associations to help members in the industry

formulate decisions on key legislative matters. Membership is , , and , respectively. A vice president and two government relations analysts (one of whom is a practicing attorney) were interviewed.

The other 7 associations had an average membership of . Three government relations individuals were interviewed in addition to four presidents and three vice presidents. One association involved an interview with both a president and vice president simultaneously; the other involved two separate interviews with a president and government relations analyst.

Nearly all of the associations that we visited were located in Washington, D.C. Only two were in northern California - one generalist association and one ad hoc association. Even though the Washington, D.C. associations are closer to the heart of the political process, they did not appear to have an advantage over non Washington based associations, since these associations either have a Washington office or employ a Washington law firm for counsel on legislative matters. Our methodology was very informal; that is we did not have structured questions that we asked the people in the associations. All of the questions were open ended. We wanted to get a descriptive sense of what has confronted the industry over the last several years. Basically, we asked two questions. What are the key legislative issues important to the industry that you are most familiar with? How has your association dealt with these issues? We asked these questions mainly because we wanted to find out: (1) if the associations are lobbying for legislative reform; and (2) if the social mechanism of the clan was emergent in the lobbying process.

In order for trade associations to have some impact on the legislative process, it would make sense for a group of the more powerful firms to work together for future legislation, aided by the association. The goal, it would seem, is one of working on a common position. Once this common position is reached lobbying can then take place. One way this can happen is for the association to perform as a lobbyist by interfacing with members of Congress and their staff. Another way is for the association to work with their members in lobbying for legislation. This is known as the "grass roots" approach. Two key conditions must be met before any lobbying can begin. These are: (1) gaining a common position; (2) a willingness to act on this common position. These two conditions will form the framework for assessing the impact that trade associations could have on future legislation and whether the clan governance mechanism was operating in the transactions that occurred between individuals involved in the exchange of information in the electronics industry.

(1) Gaining a common position. In order for such a condition to occur, transactions that take place between a trade association and its members must be coupled with a low level of opportunism. This says that when goal incongruity is high, consensus, or a common position, will be practically nonexistent. Member consensus is important because lobbying will then be performed at the industry rather than the firm level. What usually happens in trade associations is that an issue is introduced by a member who brings it to the association's attention, or by the association bringing it to the attention of the members.

Almost all of the individuals interviewed stated that consensus is very difficult to obtain. One of the adhoc associations, with a

membership as few as 4 firms claimed that there is not always a consensus among its members. One of the key government relations analysts with an association whose members are mostly computer service, data processing firms said that the association "is powerless to do or say anything unless given the O.K. by its members."

Another government relations analyst of an association comprised of members who are involved in cable television systems said that consensus is very difficult to achieve and unanimity, in this association, is almost impossible. However, it does occur usually through informal means first and then voted on by formal means. The president of this association first "feels out what the climate is" by talking to members and only "if it is favorable for him will he then advocate a particular position."

In another association of "interconnect" telephone equipment manufacturers, the president said his association "rarely takes a contrary position to that of its members --a really hard line is usually not doable."

The general theme that permeated the interviews is the difficulty in obtaining consensus from members, even in small associations where the members are within a homogeneous area of the electronics industry. This is heightened even more dramatically for one of the generalist associations. The president of this large divisionalized east coast association claimed that "if two divisions have opposing points of view they are allowed to take independent positions and the association will try to reconcile the differences. If they cannot be reconciled then the association represents two different viewpoints."

Most of the associations operate similarly when it comes to taking a common position. The issue is voted on by the Board of Governors and the majority wins. Once this occurs, the association

is able to take a stand. In every case, consensus comes from the members, especially the most vocal and most powerful ones. There is difficulty even after consensus is gained. Many of the smaller associations reach the point where they take a stand on a common position and then lobby for it. At the same time individual members may oppose the association's position and lobby against it. This does not seem to be the case for the generalist associations who are older and more established. The president of one of these larger associations (the same one who was quoted above) said that once his association adopts a position (or possibly two competing ones depending on what the divisions have decided), it becomes an industry wide position and individual members within the association cannot go against it.

The specialist associations all claimed to devote about 80% or more of their activities to government relations. In contrast, the generalist associations activities are heavily divided into membership services, with much less time devoted to legislative matters. Of the two generalist associations that we interviewed, the west coast association has a Washington office that does nothing but governmental affairs, ^{but other activities still take up more time, overall, than these.} The east coast association devotes more of its time to standardization, statistics (market research), industry promotion and information exchange than to legislative matters, perhaps as a consequence of the difficulty in obtaining consensus. The president of the east coast association does perceive a need for greater cooperation, especially in the area of Research and Development (R & D) because it is so costly. Joint research, according to him, is "fraught with potential difficulties due to our antitrust laws with the built in uncertainty in them." Implicit in this remark is that a change in the wider institutionalized environment will bring about more cooperation in the local environment (e.g., between trade associations and their members and other associations).

The interviews revealed that gaining a common position on legislative matters between a trade and its members is one of consensus by moderation. This is a consequence of the direction of consensus. It is directed by the members (or the firm level) rather than the association (or the industry level). This should fundamentally effect the association's efficiency in the transactions of exchanges on the common position.

(2) Willingness to Act. There were two key examples of legislative reform, ones that are quite recent issues, that exhibited varying degrees of consensus among the trade associations. These examples will be given in order to show the variation in consensus and a willingness to act. They will then be compared along these dimensions. Both examples are important because they took place after consensus was obtained and they exhibit the action taken by the associations.

Example 1: Lobbying for Tax Reform.

A sequence of bills were authored by congressmen and senators enabling firms to obtain tax credits and deductions for corporate or business expenditures for directed basic or exploratory research conducted by universities. ¹⁰

In 1979 a paper authored by an individual at a small electronics corporation discussed the need for R & D tax reform. Apparently, the paper made an impression upon some trade association executives. A task group was put together advocating such reform. Three bills were authored in the House and Senate advocating: (1) tax credits to stimulate corporate R&D and university R & D; (2) restoration of restricted stock options; and (3) the elimination of capital gains taxes on new investments.

The bills were circulated among the trade associations, task groups were formed, newsletters were sent to members inviting members to visit their Congressmen. A coalition of five associations was formed, including the two generalists associations and three of the specialists (primarily in computer equipment and semiconductors). According to one vice president at a specialist association of high tech instru-

mentation manufacturers:

"this is the first real tangible
presense of a we."

The generalist west coast association took the lead in this legislative matter. It advocated "the power of grass roots lobbying." For this type of lobbying to be done, the association's membership roster is broken down by congressional districts so that all the member companies can be tracked down in the districts of congressmen. Then the association actively contacted the heads of the companies - through letters and telephone calls - asking them to contact their representatives. The members did. It worked. The bill passed.

Example 2: Lobbying for Telecommunications Reform.

The issue in this example is twofold: (1) to try to change the original 1934 Telecommunications Act; and (2) what to do with A T & T. Under a 1956 consent decree, AT & T was to confine itself to "regulated services." AT & T did not get into noncommon carriers (dataprocessing matters). Telecommunication converged data processing and telephone equipment.

Legislation deregulating the telecommunications industry surfaced. The issue became one of small users versus AT&T, according to the trade associations interviewed. Many firms were fearful that if AT&T were allowed to compete in the data processing end of telecommunications, the monopoly would be able to have a competitive advantage over them and out-compete them.

Several bills were authored in both houses of Congress.¹¹ Everyone's expectations about the rewrite of the Telecommunications Act was confused. Ambiguity was high. The trade association personnel that we interviewed reflected differing viewpoints on its meaning and cooperation between associations seemed low.

To enhance the confusion: even further, on January 8, 1982 the Reagan Administration settled the antitrust case with AT & T, freeing it from the consent decree (Wall St. Journal, Jan 11, 1982). The Senate and House bills will both have to be rewritten.

The interviews with the trade associations took place just before this decision. The associations were divided. A coalition known as Telecause formed to fight the bill, originally authored by the Senate. Telecause members covered a wide range (e.g., users, transmission, interconnect, business machines and

general users of AT&T lines.) Some members were trade associations, others firms. Three very vocal trade associations did not join, according to one government relations analyst, because "telecuase took a more moderate position; one that everyone could support."

Even with this degree of moderation, not all of the associations could come to agreement on reaching a consensus on this issue. However, one government relations analyst of an association of data processing users claimed that the only way her association would take a position against AT&T is if all of the members concur with 100% unanimity that they are on one side of the camp and AT&T on the other. This did happen for this particular association, but not between associations.

Comparisons of the two examples. In the first example cooperation emerged quite strongly. The large generalist trade associations cooperated with each other and some of the more important specialist associations joined them in working toward bringing about tax reforms. The associations and their members were united. In the second example uncertainty flowed freely, but goal incongruity was high. Conflict predominated between associations and, at times, within them. There was not any spirited feeling of "we" on this issue like in example 1.

In addition to interviews with trade association representatives several individuals in government were interviewed. The questions we had in mind were: How visible were the trade associations? How united did they appear to be?

Two Congressmen who took part in authoring some of the bills in Example 1 expressed their views to us. Both Congressmen said that they were actively involved with the trade associations who helped them to develop a constituency. There developed an informal network between association-members, association-association and association-government involving a considerable degree of dialogue that was constructive for cooperative relations.

The second example seemed to generate a considerable degree of "noise and shouting". One policy analyst, who helped author the most recent House bill on the Telecommunications Act, believes that trade associations, especially in the electronics industry, are currently weak. He said that some of the personnel at the associations call his office once a week just to say hello and nothing more. He believes trade associations can inform legislatures about issues and alternatives by lobbying, especially via the "grass roots" approach (which is what may be noted in example 1).

Another government analyst claims associations do not, as a rule, employ people in key positions who actually worked on Capitol Hill so lobbying is ineffectual. There is one exception. A trade association recently employed an analyst who used to work on the Hill. Not only is her social network greater because of this but her knowledge of the informal dialogue necessary for cooperation is greater, thereby reducing transaction costs.

The second example, much more than the first exhibited resistance to change. Antitrust laws and the Telecommunications Act of 1934 have been with us for a very long time and are highly institutionalized forms of legislation. The recent decision by the Reagan Administration to free AT&T of its consent degree, before the House bill was to be voted upon, showed that the Executive Branch of Government examined the issue of telecommunications from an institutionalized framework, without examining any long term effects. The trade associations themselves were unable to gain an industry level common position because of the resistance to change by many of the members.

In the first example, the "we" feeling or that of solidarity

took place because tax reforms and tax credits were positively viewed by all and these issues are less institutionalized than antitrust ones. Also the reforms did not call for joint cooperative research between associations, so they did not have to worry about antitrust legislation as much.

Summary.

The events in examples 1 and 2 and the discussion of this section may be interpreted along the dimensions in Table 1. If there is an unwillingness to take action, situations fall into cells 1 and 3. Cell 1 consists of numerous individuals working separately for their own self interest, and trade associations will operate most inefficiently here. In cell 3, the trade associations did reach a consensus by majority vote allowing them to take a stand on an issue. However, the associations are not very efficient here, since they receive little input from members. In cell 2 there will be factionalism and fighting between groups without any unification on a common position. Trade associations fail to work together to achieve an industry wide position.

It is only in cell 4 where both dimensions are high that group formation is high. Trade associations cooperate with one another and with their members. It is in this cell where the governance mechanism of the clan is operating and trade associations can efficiently have an impact on legislation. This is what Durkheim would refer to as "Occupational associations" or "corporations" (in Giddens, 1978:67-68) in his thesis on organic solidarity. According to Giddens (1978), Durkheim envisaged corporations as moral communities.

Perhaps the closest to what Durkheim expected would come into being at all levels of the occupational system is modern professional associations which specify the moral codes that their members are required to observe in their dealings with each other and with their clients. (P. 68)

For Durkheim, these associations can be viewed as the intermediary link between the individual and the state (Giddens, p. 69). In our terms the level of trust would be high under such conditions and an equitable or just situation perceived by all.

In example 1 the trade associations can be cast into cell 4, whereas example 2 portrays evidence of cells 2 and 3 in Table 1.

One representative from an electronics industries association in Japan who was interviewed briefly during our Washington visit stated that the "Japanese associations appear to play a greater role in (the link) between the government and the private sector" than the U.S. associations. He attributed this to a willingness for Japan to bend its antitrust laws, thereby freeing the trade associations to get into certain issues without involving antitrust issues. This same representative also stated that trade associations in Japan are the link between individual members and government since the government is more willing to talk to associations than firms (because of Japan's emphasis on the collectivity or the group), giving more power to associations in Japan than in the U.S. This seems to suggest that Japanese trade associations will fall into cell 4 in Table 1, although this is just speculative here and needs to be studied more systematically in the future. The process of how Japanese associations would come about should be especially interesting. Future work will examine the subtleties and informal dialogue in that country.

It seems at this point that the distance between the elements in Figure 2 is much less for Japan and much wider for the U.S. Furthermore the distance reduction is brought about by the trade associations in Japan, whereas the U.S. ends up yielding to the will of its members.

CONCLUSION

The role that trade associations can play in having an impact on legislative matters centered upon the electronics industry in the U.S. It is our belief that trade associations can be a link between firms and government in such a way that the industry becomes a group bound by organic solidarity. Since trade associations interface with firms and government, the analysis is at the environmental level. From an efficiency perspective, we attempted to examine the nature of transactions and their governance mechanisms in the enVironmental niche of trade associations. We found this approach to be useful and allowed us to gain a clearer understanding of the process of carrying out transactions in order to bring about greater efficiency at the industry level. We claim the efficiency perspective is an alternative to that of the resource dependence perspective where power, rather than efficiency, is the end result.

In the U.S. antitrust legislation from the wider institutionalized environment was enacted creating a bureaucratic assisted market between firms and trade associations. Its primary feature is to enforce competition, resulting in higher transaction costs (due to regulation) than if industry were allowed to self regulate. Given ambiguity and uncertainty in the marketplace, especially in the electronics industry, the market seems to fail when it comes to governing transactions. Furthermore, the bureaucratic mechanism of control also seems to fail, given the highly ambiguous nature of antitrust laws. A clan governance mechanism is more efficient because cooperation is greater here.

Figure 3 specifies the differences in cooperation between a bureaucratically assisted market and a clan assisted market.

Our underlying assumption throughout this paper is that current regulations are outmoded in today's industrial society and the enforcement of a market for firm-firm, firm-association, association-association and association-government behavior can lead to greater inefficiencies. We also pointed out that the clan mechanism is operating at its fullest when there is a consensus on a common position and a willingness to act upon it. We have chosen to operationalize the concept of the clan along these dimensions in this study of trade associations in the electronics industry in the hope of trying to expand upon the idea of the clan by developing how it works and when it works best.

The relations or transactions which occur between trade associations with their members, other associations and government are high in goal congruence and low in goal conflict when a clan is operating. When this occurs, there is usually a consensus on a common position, but nothing will get resolved unless there is a willingness to act to obtain this common goal by the parties involved in the transactions.

This paper has been an initial attempt to try to understand the efficiency of trade associations in their exchanges with their members, other associations and government--that is, members in their environmental niche. We looked at the efficient boundaries of these relations. Even though it has barely tapped the surface, we feel it has enhanced our knowledge about trade associations since such a scarcity of

of literature exists for them. To our knowledge, this is the first time trade associations have been interpreted through the framework of efficiency or transaction costs. Future work on trade associations should include larger data sets in order to be able to quantify and measure some of the dimensions presented here.

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FOOTNOTES

- ¹The study currently has data on the financial structure and vertical integration of 670 U.S. firms and 150 Japanese firms in the electronics industry. An additional portion of the study is examining the banking relationship in the U.S. and Japan. The current study is headed by Professor William G. Ouchi at UCLA, Graduate School of Management. An overall view of this study is presented in the recent work by Ouchi, Barney and Ulrich, 1981.
- ²Our ultimate goal is to survey - through questionnaire design - 135 trade associations in the U.S. and 60 trade associations in Japan, all in the electronics industry.
- ³This paper is concerned with (b) since the exchanges we are examining here are that of efficient boundaries between organizations, or external structure. If we were doing a study of internal structure we would be dealing with (a) and (c).
- ⁴The goals of individuals do not necessarily have to be congruent, since the norm of the legitimation of authority maintains the perception of equity. This is manifested through formalized rules and regulations.
- ⁵It is a young industry; many of the trade associations involved in the computer end of the electronics industry did not evolve until 1968 or 1970, since computers did not really come into their own until the latter half of the 1970s. It is not as standardized as some older industries, such as the bottling industry. The electronics industry is technologically complex and constantly changing. In transaction cost terms, its transaction characteristics are high in performance accounting ambiguity and it is asset specific (that is, exchanges are not easily transferable to other users and uses).
- ⁶In recent work on civil service reform, Zucker and Tolbert found a great likelihood of adoption of reform in its early stages before it became institutionalized. Once something is institutionalized, the less the acceptance of innovation.
- ⁷And the passage of the Federal Trade Commission Act in 1914
- ⁸Antitrust laws in the U.S. were most relaxed in 1933 with the National Industrial Recovery Act (NIRA). The ideology of the NIRA was that more goods were being produced than consumers had money to buy, thus production was to be limited. Given the NIRA and governmental cooperation, trade associations did not fear prosecution of antitrust legislation, resulting in an increased amount of self regulation by industry. In 1935, this practice became discouraged when the NIRA was declared unconstitutional by the Supreme Court. There was never again such close cooperation between Government and Trade Associations like the time that the NIRA was in existence.

- ⁹ We originally interviewed 13 associations but dropped one from our sample, since this association only performed trade shows for its members and was vastly different from the other associations in our sample.
- ¹⁰ Information about these bills comes from interviews with trade association representatives and the literature they supplied us with. The numbers are:
- | | |
|---------|------|
| HR 1539 | S98 |
| HR 1864 | S692 |
| HR 2797 | S539 |
- ¹¹ Again, information about these bills comes from interviews with trade association representatives and the literature they supplied us with. The numbers of the bills in chronological order are:
- S898
HR6121
HR5158

ENVIRONMENTAL NICHE OF
TRADE ASSOCIATIONS

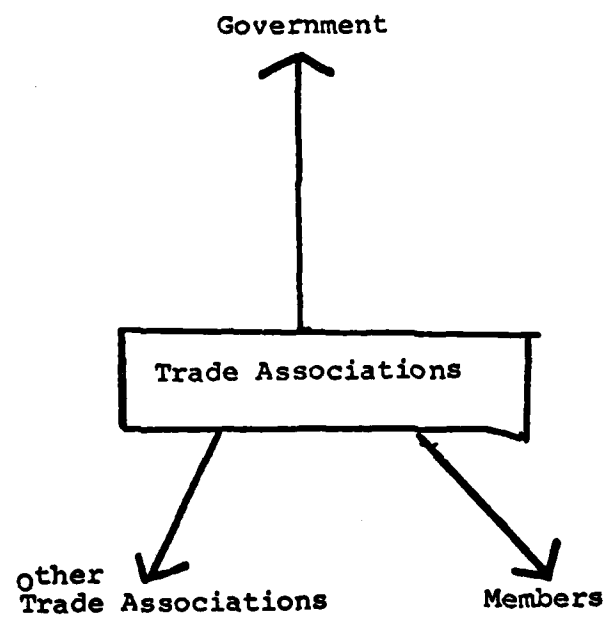


Figure 1

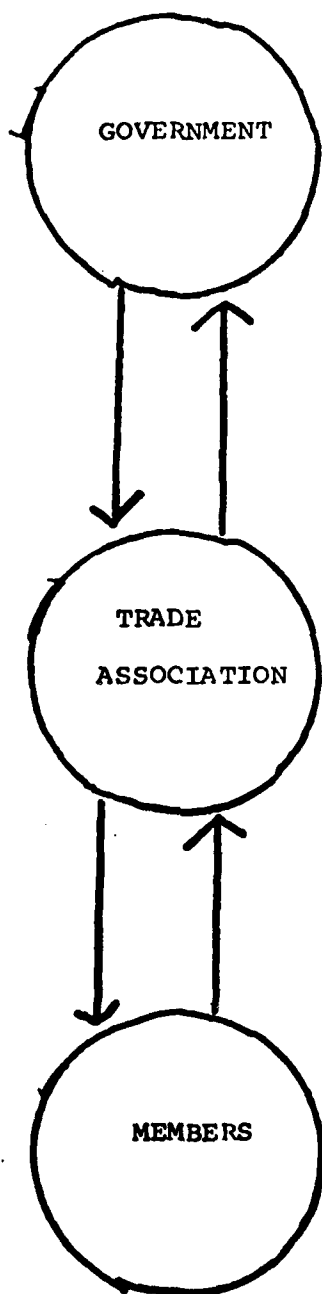


Figure 2.

GOVERNMENT ASSISTED MARKETS AND RELATIONS
WITH TRADE ASSOCIATIONS



Figure 3.

Table 1.

WILLINGNESS TO TAKE ACTION

GAINING A COMMON POSITION	WILLINGNESS TO TAKE ACTION	
	Low	High
	(1)	(2)
	Opportunism is high; goal congruence low. The trade association can do nothing. A high degree of individualism is exhibited. Low group formation.	Opportunism is high; goal congruence low. Some group formation, but there will be divisions between groups within and between trade associations. Opposite stands or positions are taken.
	(3)	(4)
	Opportunism is low; goal congruence high. Group formation is low. The trade association acts without much input from members.	Opportunism is low; goal congruence high. Group formation is high within and between trade associations.

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